

**PRESENT: COUNCILLOR B YOUNG**

Councillors W J Aron, C Farrar, N I Jackson, Mrs P A Mathers, Mrs S Rawlins and A N Stokes.

Also in attendance: Mr P D Finch (Independent Added Person)

Officers in attendance: David Forbes (Assistant Director – Finance and Asset Management), Steve Golightly (Senior Sustainability and Climate Change Officer), Stephanie Kent (Audit Manager), David O'Connor (Executive Director Performance and Governance), Lucy Pledge (Head of Audit and Risk Management), Nigel West (Democratic Services Manager), Mike Wood (Audit Commission) and Rachel Wilson (Democratic Services Officer).

Prior to the start of the meeting, the Chairman paid tribute to Councillor Mrs Farquharson, who had recently been elected as Vice-Chairman of the Council and so was unable to continue in her position as the Vice-Chairman of the Audit Committee. Councillor A N Stokes was welcomed to the Committee as the new Vice-Chairman.

The Committee was also informed that Audit Lincolnshire had been awarded the CIPFA Cliff Nicholson Award 2012.

1. APOLOGIES FOR ABSENCE

No apologies for absence were received.

2. DECLARATIONS OF MEMBERS' INTERESTS

There were no declarations of interest at this point in the meeting.

3. MINUTES OF THE MEETING OF THE AUDIT COMMITTEE HELD ON 23 APRIL 2012

RESOLVED

That the minutes of the previous meeting held on 23 April 2012 be confirmed and signed by the Chairman as a correct record.

4. INTERNAL AUDIT ANNUAL REPORT - 2012

Consideration was given to a report presented by the Head of Audit and Risk Management which provided an opinion on the adequacy of the Council's governance and control environment and the delivery of the Internal Audit Plan for 2011/12.

It was reported that the Internal Audit Service continued to work with the Audit Committee and management to assist the Council in maintaining effective governance, risk and control processes.

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A number of areas were identified during 2011/12 where there was a need for improved compliance and strengthening of the control processes. Overall, the performance, risk and control processes of the Council had been assessed by the Head of Internal Audit as amber – performing adequately with some improvements required.

The Internal Audit Report 2012 set out a number of aspects such as the management summary, and a detailed explanation of how the Head of Internal Audit reached her opinion. It was reported that the following areas were identified as needing further improvement:- Adult Social Care; Children's Services – Kinship care; Performance & Governance – ICT Management Arrangements, Register of Interests, SAP Licensing & Security; Resources and Community Safety – creditors, Youth Offending Service, Procurement Card, Tendering & Contracts; Communities – Carbon Reduction; and Counter Fraud.

It was noted that the authority had taken account of structures and processes which had been put in place to ensure that the Council promoted good governance in the way it operated. Reference was also made to the peer challenge which the authority had participated in during September 2011 and the outcomes of this would assist the Council in building on its strengths.

Benchmarking information was also included in the report which set out the assurance given, and gave an insight of the controls in place. The data showed there had been a decrease in the level of positive assurance. However, this was likely to be due to the changes in the control environment as a result of the transformation the Council had been through in the previous year. It was emphasised that the information presented in the graphs were in year opinions not a like for like comparison.

It was queried whether there was any intention to examine drainage partners, as partnerships were becoming more and more operational. It was reported that this was not specifically in the work plan, however, it was part of the strategic risk register and the Committee would have the opportunity to review this at a later date.

It was reported that the approach to audit had changed with the development and use of the combined assurance model, which would provide more assurance through corporate functions. It would also be possible to track particular areas of business and leverage assurance from other parts of the business. Health checks could also be carried out as well as more in depth audit reviews.

A discussion took place regarding the Committee's role in terms of the oversight of the Register of Officers' interests, and it was acknowledged that the Committee would like to see reports on this, but there was maybe not a need to be involved in the day to day running of it. The action plan which was drawn up as a result of the management review was done so as a way of improving the process of registering interests.

**RESOLVED**

That the content of the report be noted.

## 5. COUNTER FRAUD ANNUAL REPORT 2011/12

The Committee received a report presented by the Council's Audit Manager which reviewed the delivery of the 2011/12 Counter Fraud Work Plan and provided information on the overall effectiveness of the Authority's arrangements to counter fraud and corruption.

It was estimated that £2.2 billion was lost nationally through fraud and error in local government each year. Lincolnshire County Council has had a small, dedicated and effective counter fraud team in place for some years. Following the publication of the Local Government Fraud Strategy – 'Fighting Fraud Locally', by the National Fraud Authority, it has encouraged Councils to adopt a tougher approach to fraud, as it was felt that this could contribute towards the need to make savings in local government. The Committee was advised that the Council was a strong position to implement the 'Fighting Fraud Locally' strategy as many of the recommendations were already in place. It was recognised, however, that there was scope for further development to ensure there was a resilient response to the changing environment within local government.

The Committee was advised that the number of fraud referrals received in the previous year was consistent with the two preceding years (17 in total), and the estimated value of the fraud associated with these cases was estimated at £968,000, however, some were attempted frauds which were prevented with no loss to public money. Three of the cases referred in 2011/12 were still on going at the time of the meeting, and there had been two successful prosecutions. In one of the cases, the loss was being recovered through the perpetrator's assets under the Proceeds of Crime Act, and through their personal pension and the Council's insurers.

Analysis showed that over the past three years, the most common types of fraud related to abuse of position, procurement and service user finances. The highest value frauds investigated in the previous year related to external cases, this trend was consistent with that experienced the year before and was likely to remain a high risk area with the shift towards a commissioning authority model.

The proactive work of the Counter Fraud Team during 2011/12 had included imprest accounts, direct payments and 2010/11 National Fraud Initiative (NFI) data matches for Lincolnshire County Council. It was reported that £60,000 of overpayments had been identified through the NFI testing, and these had been recovered in full. The Counter Fraud Team had exceeded its target for the year by recovering over £800,000.

The Committee was advised that fraud was still a high risk area, and it was important to maintain a robust anti-fraud response. It was important for the authority to continue to acknowledge and understand fraud risks and strengthen arrangements to prevent, detect, investigate and punish fraudsters. The Counter Fraud Team was now fully resourced and had a robust work plan for 2012/13 which aimed to further develop the Council's anti-fraud culture, make better use of information and technology to prevent and detect fraud and implement the recommendations of the Local Government Fraud Strategy.

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Members were provided with the opportunity to ask questions to officers present in relation to the information contained in the report, and during discussion, the following points were noted:

- Schools were not actively encouraged to appoint governors with financial experience as training was provided;
- The processes for schools were comprehensive but it was when the compliance and application of these processes failed that fraud occurred. There were regular audits of schools based on their size and complexity;
- In relation to the high risk area of commissioning, it was reported that the Counter Fraud Team worked closely with the contracting teams to ensure they were aware of signs of fraud, and that they knew who to inform if they had any concerns;
- It was planned to carry out a lot of work in the area of procurement in the coming year;
- In terms of service user finances, it was necessary to raise awareness amongst social workers and those working with personal budgets of the risks of fraud;
- One of the priorities for the Council was to improve contract management and actions were taking place on this front. Lincolnshire County Council was part of a national pilot scheme to improve contract management;
- There had been a change, for the better, in the quality of contracts;

### RESOLVED

That the overall effectiveness of the Council's arrangements to counter fraud and corruption and the progress made during 2011/12 to implement policy be noted.

### 6. EXTERNAL AUDIT PROGRESS REPORT

A verbal update was received from the External Audit Manager which informed the Committee that the Audit Commission's interim work had been completed, and the preparation for the audit of the final accounts had begun. The audit of the Pensions fund had begun. The main LCC audit visit would begin in July 2012.

It was reported that progress so far seemed to be good in terms of addressing the issues which arose in the previous year.

The Assistant Director – Finance and Asset Management reported that the position with the accounts was that they were not quite on timescale, but the Council had started its own quality assurance work which was 60% complete. There was full engagement with the management team at Mouchel. It was believed that there would be no fundamental problems to prevent the accounts from being completed on time. The statement of accounts would be presented at the next meeting along with a position statement. The accounts were due to be handed over to the auditors by 30 June 2012.

### RESOLVED

That the update be noted.

**7. REGISTER OF OFFICERS' INTERESTS, GIFTS AND HOSPITALITY**

Consideration was given to a report presented by the Democratic Services Manager which provided the Committee with an update on the review of current procedures relating to the declaration of officers' interests, gifts and hospitality.

The Committee was advised that it had previously supported the introduction and implementation of a clear and consistent corporate policy covering declaration of officers' interests, gifts and hospitality. This had prompted a management review of the procedure, and the need to refresh the policy and documents relating to the register had been confirmed. It was hoped that the policy would be re-launched in July 2012.

A reminder was issued to all staff via the internal communications system which drew attention to the requirements of the legislation had generated a number of responses from officers.

It was reported that revisions to the policy, guidance and documentation had been considered by Corporate Management Board and the trade unions were being consulted on the changes before the new documents were published.

The Committee was informed that the management review had been carried out as part of testing the ground towards the assurance map, the Executive Director Performance and Governance and the Head of Corporate Audit and Risk Management would follow up on this. The Management Board would be able to track critical processes. Officers would be happy to make changes to the document depending on the view of the Committee. Once it had been finalised, the policy and guidelines would be published and circulated to all staff. An action plan would be provided and a formal report would be brought to a further meeting if required.

The Committee was advised that there was no lower limit for disclosure of interests, gifts and hospitality for officers, but Councillors were required to declare anything over £25 in value. It was noted that there was no evidence of any abuse of gifts and hospitality within the Council. The revision of the policy was driven by a need for consistency as it was currently being followed in different ways.

**RESOLVED**

1. That it be noted that a management review of Lincolnshire County Council's register of officers' interests, gifts and hospitality had taken place;
2. That a report outlining the revised policy, guidance and forms be brought to a future meeting;
3. That an action plan for the review be provided.

**8. CORPORATE AUDIT PROGRESS REPORT TO 30 APRIL 2012**

The Committee received a report which provided an update on progress made against the Audit Plan 2012/13. It was reported that this was a regular update to the

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Committee on audit reports which had been issued in the last quarter. Some of the reports were currently in a draft stage and would be brought to the next meeting.

The Senior Sustainability and Climate Change Officer was in attendance for this item, in order to answer questions from the Committee in relation to the Carbon Reduction Commitment.

Particular attention was drawn to the audit report regarding the Carbon Reduction Commitment which had been assessed as 'no assurance'. The Committee was advised that this assessment had been issued as Internal Audit was unable to validate the data within the 2010/11 footprint report and annual report as it was not supported by a complete evidence pack. Concerns were raised by Members as the fine for no or an incomplete evidence pack could be up to £40 per tonne of CO2 emissions, which could result in a fine of up to £3,102,640 for the County Council. However, the Committee was reassured that this fine was unlikely and authorities would only be fined if any attempts to deliberately hide figures. It was also noted that 'no assurance' had been given as there were no set procedures in place for collecting the data.

Another issue had been 'missing data', as schools had an obligation to provide usage information to the County Council which was not always completed, however, gas and electric meter readings were now generated and automatically sent through to the Council. There was also no comprehensive property list, and officers were working on putting together one list to ensure that nothing was missed in the future. Training and robust procedures for collecting this information were also being put in place, as the audit had revealed that there was only one member of the Mouchel Property Team who had sole responsibility for producing the data for the submission.

Officers were also working with schools to help them to reduce their carbon emissions, and it was noted that there was a £1million fund which maintained schools could access for the introduction of energy efficient measures.

Members of the Committee were provided with the opportunity to ask questions to the officers present in relation to the report and some of the points raised during discussion included the following:

- Academies were still included as part of the County Council's carbon emissions;
- Huge savings could be made through the use of very simple initiatives;
- It was not always about investment, the authority was also in the process of rationalising it's housing stock, which was one of the most cost effective ways to reduce carbon emissions;
- There was a need to record the evidence in a way that a third party could understand it;
- In relation to whether the County Council received a fine, there would be a desk top exercise carried out in the first instance, and if there was a problem advice would be given first. Fines would only be handed out to those authorities who appeared to be hiding information, or not presenting a true picture. There was no evidence to suggest that any local authority was in a better position than Lincolnshire County Council at this moment in time;

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The Committee was also advised that the contract to provide audit services to Newark and Sherwood District Council commenced on 1 April 2012. A plan for the first six months was in place and staff had been transferred over, and were trained and working to the new processes.

**RESOLVED**

That the outcomes of the Corporate Audit work be noted

**9. AUDIT COMMITTEE ANNUAL REPORT 2011/12**

Consideration was given to a report which presented the draft Annual Report for the Committee on its work undertaken during 2011/12 and which would be presented to full Council.

The Chairman informed the Committee that a lot of work had been done so far on this document. It was noted that there had been a small working group set up to produce this document, and there were still a few gaps which needed to be added, but it was hoped that it covered the kind of work which had been done by the Committee.

It was agreed that the Chairman and Vice-Chairman would complete the document and the members of the Committee were asked to feed in any comments in relation to the document in the next two weeks to the Head of Corporate Audit and Risk Management.

**RESOLVED**

1. That the content of the draft Annual Report 2012 be approved;
2. That the Chairman approves the final format of the report and presents it to the full Council meeting in September 2012.

**10. WORK PLAN**

Consideration was given to a report presented by the Head of Audit which outlined progress on agreed actions and the Committee's work plan up to November 2012. The Committee was referred to Appendix A of the report which set out its Action Plan.

The Committee was reminded that at its last meeting, the number and dates of future meetings were discussed, and it was proposed that the following meetings be cancelled:

- 17 December 2012
- 18 March 2013
- 16 December 2013

It was also suggested that the meeting scheduled for 23 September 2013, be moved to 30 September 2013.

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There was also a suggestion that some time should be set aside prior to the start of the meeting on 24 September 2012 in order for Members to determine other areas of work to examine.

**RESOLVED**

1. That the action plan and work plan be agreed;
2. That the changes identified be agreed;
3. That the agenda items for the meeting on 9 July 2012 be agreed;
4. That the proposed changes to the Committee calendar/dates outlined above be approved
5. That the meeting on 24 September 2012 commence at 11.00am in order to allow time to determine work for the forthcoming year

The meeting closed at 11.20am